



Super decisions



MONEYSMART
Simple guidance you can trust



ASIC

Australian Securities & Investments Commission

About ASIC and MoneySmart

The Australian Securities and Investments Commission (ASIC) regulates financial advice and financial products.

MoneySmart is our website for consumers and investors to help you make smart choices about your personal finances. It offers calculators and tips to give you fast answers to your money questions.

Visit moneysmart.gov.au or call ASIC on 1300 300 630.

About this booklet

If you're saving for your retirement, it's essential to know how to get the most out of superannuation ('super'). This booklet will help you make the right decisions. Keep this booklet with your super paperwork so you can refer to it later.

This booklet will help you:

- ▶ understand more about super
- ▶ make better super decisions
- ▶ find extra help and information.

The information presented here can start you off on the right foot with general tips and explanations. However, not all these ideas may apply to every fund or to your own circumstances. If you want personal advice about super, speak to your fund as they may provide advice services, or see a licensed financial adviser.

ASIC's MoneySmart website helps you choose an adviser. Go to moneysmart.gov.au.



Contents

Key tips about super	4
Essential facts	5
Choosing a fund	8
Finding out about each fund	9
Choosing your investment strategy	20
Building your super	23
Changing funds	26
Changing jobs	28
Keeping track of your super	29
Complaints about your fund	33
Getting super before your 'preservation age'	34
Moving towards retirement	37
To find out more	40



Key tips about super

- ▶ Get interested in your super. It's your investment for your retirement.
- ▶ Look before you leap when choosing a fund. Compare retirement and insurance benefits and other features. Keep fees and charges down.
- ▶ Super's a long term investment, so take investment ups and downs in your stride.
- ▶ Consolidate your super accounts where possible, to avoid paying fees for more than one account and to stop you losing track of your super. Keep your fund(s) up to date with your address and how you'd like your death benefits paid.
- ▶ If you're changing or consolidating super funds, make sure you don't lose valuable insurance benefits.
- ▶ Make sure your fund knows your Tax File Number. It helps you keep track of your super, makes sure your super is taxed at the special low rate and ensures you are not subject to extra restrictions on making contributions.
- ▶ Steer clear of super scams. If it sounds too good to be true, it's probably a lie.



Essential facts

What do you get from super?

Super is an excellent way to save money for your retirement because of the tax concessions and other government benefits.

Super funds may also offer additional benefits, such as life insurance cover, and total and permanent disability insurance (insurance if you become disabled or sick for an extended period of time).

Who can join a super fund?

In most cases, you join a fund as soon as you're employed (or at least within three months of being employed), because by law your employer must pay contributions into a fund on your behalf if you are eligible for compulsory contributions.

Generally, to be eligible you must be working on a full-time, part-time or casual basis and paid over \$450 (before tax) per calendar month. If you are under 18 you have to meet the additional requirement of working more than 30 hours a week to be eligible.

If you're self-employed, you can decide if you want to join and contribute to a fund. Most self-employed people can claim a full tax deduction for contributions they make to their super until age 75.

While most people with super are employed others can also become members of a super fund. For example:

- ▶ If you are not currently employed, or never have been employed, you can still join and contribute to a fund up to age 65. Special rules relating to employment apply to contributions you make when you are 65 and over.
- ▶ If you're not working or have a low income, your spouse can contribute for you. See 'Contributing for your spouse' on page 24.

Immediately when you join a fund, make sure you give them your Tax File Number so you don't pay unnecessary tax or miss out on other benefits.

How much gets paid into your super?

If you are eligible for compulsory contributions, your employer must pay a minimum of 9.25% of your 'ordinary time earnings' into your super account each quarter. This means 9.25% of the amount you earn for your ordinary hours of work. These payments are called 'super guarantee' payments. For example, if your ordinary time earnings for the year are \$50,000 your employer must pay \$4,625 into your super account.

Visit the Australian Taxation Office (ATO) website for more information on ordinary time earnings. See 'To find out more' on page 40.

Your employer or you may pay extra money into super at any time, though tax concessions may not apply to very high contributions (there's an annual limit to how much you can contribute while taking advantage of tax concessions). If you're self-employed or not employed, you alone decide how much to pay in. Once you reach age 65 you need to meet a work or 'gainful employment' test to contribute. See 'Your own after-tax contributions' on page 23.

What type of fund can you join?

Fund rules control who may join. There are five basic types of funds:

Corporate funds	▶ are generally only open to people working for a particular employer or corporation. Sometimes ex-employees or relatives of an employee can also join the fund. (Employers may run their own plan or run it through investment managers or a master trust.)
Public sector funds	▶ are generally open to Commonwealth and State Government employees.
Industry funds	▶ are sometimes open to everyone. Otherwise you can join if you work in a particular industry or under a particular industrial award and your employer signs up with the fund.
Retail funds	▶ are open to everyone. They are run by financial institutions.
Self-managed super funds (also called SMSFs)	▶ are open only to you and up to three other people (who cannot be your employees unless they are related to you).



In order to obtain special super concessions you must join a 'complying' super fund that meets legal standards. Generally the types of fund listed above are complying super funds. There is a free register of complying funds called 'Super Fund Lookup' at abn.business.gov.au if you want to check. See 'To find out more' on page 40.

Otherwise, super can be paid into a 'retirement savings account', a special deposit account with banks or other deposit-taking institutions. For amounts of \$10,000 or more, you may wish to consider other super arrangements that may give a greater return over the long term.

Who controls your super?

Trustees run your fund. By law, they must act honestly and prudently, and make decisions in the best interests of all members. Trustees have to demonstrate to the regulator that they are fit and proper persons to do this.

Trustees hold office under the fund's rules. Often, trustees hire professionals to invest the fund's money and to look after fund assets, membership records and other tasks. Trustees still remain responsible, and if they fail in their duties, courts or government agencies can remove them.

Who regulates the funds?

Three government agencies regulate and enforce legal standards to protect you and your benefits:

- ▶ ASIC regulates what funds tell you and how they abide by company law.
- ▶ The Australian Prudential Regulation Authority (APRA) regulates how funds operate (except self-managed ones) so that your funds can meet their obligations to you.
- ▶ The ATO regulates self-managed funds, employer contributions (the super guarantee), bonus government contributions and super tax rules.

Government agencies don't guarantee your fund's capital or investment earnings.

Choosing a fund

Are you eligible to choose a fund?

Most employees are able to choose which fund will receive their employer's super guarantee contributions. Certain employees covered by industrial agreements and members of defined benefit funds cannot choose.

If you're eligible to choose, your employer will give you a 'standard choice form' when you start work. You can also get your own standard choice form and choose at a later stage.

To find out if you're eligible to choose a fund, check with your employer or contact the ATO. See 'To find out more' on page 40.

Your right to choose a fund

You don't have to choose if you don't want to. If you don't, you can do nothing and your employer will pay their contributions into a 'default' fund they choose or which is nominated in an industrial award covering your employment. From January 2014, 'default' funds will include a new type of account called MySuper. See 'MySuper' on p.11 to find out more.

Quick tip



Your current fund may be different from the default fund. It is important that you take time to understand the benefits and costs of your employer's default fund. Compare it with at least two other funds, an industry fund and a retail fund. Use the worksheet on pages 16–17 to do your comparison.

You can choose a fund at any time, but you cannot make your employer change your fund more than once a year. You must also give your employer written confirmation from your chosen fund that it will accept your employer's contributions.

Choosing or changing funds for your **existing** accounts, including previous employer contributions, must be done separately. Generally, it saves time and money in the long run to keep your super in as few accounts as possible. See 'Changing funds' on page 26.



Finding out about each fund

The fund's '**product disclosure statement**' tells you what you need to know, including:

- ▶ fees and costs you'll pay
- ▶ death and disability benefits and insurance premiums
- ▶ investment strategies you may be able to choose
- ▶ objectives of each investment strategy, its risks and likely returns
- ▶ fund features and services, including complaint handling procedures.

To help you compare funds, read the important facts on the following pages and then use the worksheet on pages 16–17 to collect your information.



Check your fund type and employer contributions

Accumulation funds

Most funds are accumulation funds.

The value of your retirement benefit depends on:

- ▶ how much money your employer and you contribute
- ▶ how much your fund earns from investing the money, after deducting costs and taxes. Investment earnings are added to your account, and investment losses are deducted.

In these funds, you take the risks and get the rewards from your fund's investment performance. When you retire, you can receive your account balance.

Defined benefit funds

These funds are less common, and are often generous and lower risk.

The value of your retirement benefit is defined by the fund rules and usually depends on:

- ▶ how much money gets paid in by you and your employer
- ▶ how long you have worked for your employer
- ▶ how much money you are earning when you retire.

For example, your benefit might be worth five times your final salary after 25 years' membership.

- ▶ If your fund's investment performance is poor, your employer must still ensure the fund can deliver the benefits due when you retire. So long as your employer can afford that, your investment risk may be limited to what's earned on any personal contributions.

If you can choose between these two sorts of funds, check the benefits and rules carefully.

If you're a long-term, full-time employee, a defined benefit may suit you very well. For short-term or part-time employees, some defined benefit funds might be restrictive. For example, when you leave the employer, you may be forced to keep your money in that fund, possibly at low rates of return, until you retire.

(Note: If you're in a defined benefit fund, but receive only 'accumulation' benefits, our comments about accumulation funds apply to you.)



What is MySuper?

Some super funds now offer a new, simple and cost-effective super account called MySuper. MySuper will eventually replace existing default super accounts (the accounts chosen by your employer if you don't choose a fund).

MySuper accounts offer:

- ▶ lower fees (and restrictions on the type of fees you can be charged)
- ▶ simple features so you don't pay for services you don't need
- ▶ single or life stage investment options

From 1 January 2014, if you haven't chosen a super fund, your employer must pay your super to a super fund that offers MySuper. If you are in an existing default fund (a fund your employer has chosen) your super fund has until 1 July 2017 to transfer your balance into a MySuper account.

If you haven't chosen your super fund in the past and you have just gone with the fund your employer has selected, then you don't have to do anything. Your super will automatically be transferred into a MySuper account by 1 July 2017.

MySuper will only be offered for accumulation funds and not for defined benefit funds. Retail, industry and corporate funds can all offer MySuper accounts.

Contact your super fund to see if MySuper is right for you.



Quick tip

Some employers may pay in extra money if you:

- ▶ join the employer's fund instead of a fund operating independently
- ▶ stay with your employer for a certain length of time
- ▶ contribute extra from your own pay.

Some employer funds may pay extra benefits if you are made redundant.

Compare fees and costs

All funds charge fees. The **product disclosure statement** shows all significant fees in a special table and gives a worked example of the fees in dollars. You can also compare the effect of fees with the superannuation calculator at moneysmart.gov.au.

More services or choices can mean higher fees. Consider how much the additional choices or services are worth to you, because every dollar you pay in fees reduces your final benefit (fees are paid from the money you invest, so the more you pay in fees the less you'll have invested in your super). If you pay an extra 1% each year in fees, you could lose up to 20% from your retirement benefit over 30 years.¹

Look first at 'management costs' – these include the administration and investment costs associated with running your fund. Often you will pay management costs as a percentage of your super fund balance, and if you are paying this way 1% in management costs will amount to \$100 if you've got \$10,000, and \$500 for \$50,000 for example. Many funds will also have a management cost fee set at a certain number of dollars per year, such as \$50 or \$100 per account.

Because management fees include investment costs, when you compare management costs, make sure you're comparing funds with similar investment strategies. Low-growth investment strategies usually cost less than high-growth, but may give you less when you retire. See 'What investment strategies mean' on page 21.

Management costs typically range from 0.6% to 3% each year. Corporate, public sector and industry funds often charge less than retail funds because retail funds often pay commissions to financial advisers. You may value the financial advice, especially in considering extra investment options or other services from retail funds.

Next, compare other fees, for example contribution, withdrawal and termination fees. You may be able to negotiate some fees for retail funds by going to a financial adviser who rebates or discounts them. If you defer contribution fees, you may end up paying more in total fees.

Other costs, like insurance, are set out elsewhere in the **product disclosure statement**, so check the whole document. A few employers pay part or all of the costs of their own funds to encourage you to join.

¹ With an opening balance of \$50,000, a salary of \$55,575 and fees of 1% each year, your super accumulation is \$362,000 in 30 years, compared with \$304,000 if fees are 2% each year. (Source: ASIC's superannuation calculator at moneysmart.gov.au.)



Death and disability benefits and insurance

Most funds will pay insurance benefits up to a certain level if you die or are unable to work because of an illness or accident.

Some funds may give you immediate cover without any medical examination or questions. Some funds make some insurance cover compulsory, for example default funds nominated by your employer must offer you a minimum level of death cover unless certain circumstances apply.

Some funds allow you to opt out and not be charged, while others allow you to opt in. Salary continuance insurance is often an optional extra.

Your super fund member statement will show whether you have any insurance cover and how much the premiums are. Your fund usually charges a fee for the insurance direct to your super account unless your employer pays for it. Your super fund's **product disclosure statement** will set out the details of your policy. If you can't find this information contact your super fund to check whether you have any insurance.

Decide how much cover you need, and compare costs. You can usually increase the amount of your insurance cover for a small fee. Without enough insurance cover, you and anyone who depends on you could be at risk. Always check how you'll be covered before changing funds.

Check any restrictions for age, dangerous jobs, part-time or casual work, and maternity leave.

Compare investment options

Many funds let you select an investment strategy, and some offer many investment options. You generally don't have to choose – many people are happy for the trustees to choose the strategy.

In choosing your fund, decide how much investment choice you're really likely to use. Four or so broad investment options are commonly offered. See 'What investment strategies mean' on page 21.

It's probably useful to have at least a choice between:

- ▶ high growth with higher risk
- ▶ low growth with lower risk.

This gives you some control over how your super is invested. See 'Choosing your investment strategy' on page 20.

Judge investment performance

Your fund's investment performance usually makes a big difference to how much you will have to retire on.

No-one can reliably pick which fund will perform best. It's far more reliable to pick the right investment strategy and fund features with low fees, and take the ups and downs of investment performance in your stride.

Here are some tips for judging performance:

- ▶ Look for a reasonable performance. It's a waste of time trying to pick next year's top performer.
- ▶ Judge performance over at least 5 years. Super is a long-term investment, and short-term figures, such as the last 12 months or less, are all but useless.
- ▶ Few funds beat the long-term averages, and it's really guesswork trying to pick the few that will.
- ▶ If your fund performed worse than average over a 5-year period, then you may want to consider changing. See 'Changing funds' on page 26.
- ▶ Compare like with like by looking at what the fund is investing in (because a label like 'growth' for one fund might not mean the same thing in another fund). See 'What investment strategies mean' on page 21. If a fund has 70–80% of its money in shares and property, compare it only with other similar funds, not funds with 60–70% of their money in cash and fixed interest. Higher fees do not guarantee you higher returns.
- ▶ Try to use the same start and finish dates for each fund. Five-year performance from June to June will differ to that from January to January.



Quick tip

Past performance is no guarantee of future returns. Today's top-performing funds tend to fall back to the average over time. However, consistently poor performance can prove hard to turn around.

Research companies rate super funds and often publish their ratings in newspapers and websites. See To find out more, page 40.



A consumer-friendly fund?

Look at a fund's annual report and website and get in touch with them if you have questions, to see if you'd feel comfortable joining. Look out for:

- ▶ Clear, meaningful information about investment strategy, long-term performance, investments and managing investment risk.
- ▶ Efficient, low-cost administration.
- ▶ A clear explanation of the relationship between the trustee and fund managers.
- ▶ A good record in dealing with members and with regulators. For example, check the auditor's report and regulators' websites (ASIC, APRA, ATO). See 'To find out more' on page 40.
- ▶ On-time annual reports, performance updates and newsletters.
- ▶ A useful helpline or website.

Your super fund comparison worksheet

As with anything you buy, it is best practice to shop around by getting a few quotes and comparing costs. Use the worksheet on the next page to help you compare the costs and benefits of accumulation funds.

Super fund comparison worksheet

Fund name

Any extra super benefits

Extra employer contributions?

Redundancy benefits?

Fees and costs

Management costs for your investment option as % of your total account

Amount of any additional dollar-based management costs

Contribution fee, as % of each contribution*

Withdrawal fee, as % of each amount withdrawn*

Termination fee, as % of your total account on closing it*

Service fees, e.g. switching fee, adviser service fee

Insurance

Automatic cover or subject to medical questionnaire or exam?

Life insurance: \$ cost per year for the amount of cover you want or cost of compulsory cover

Total and permanent disability: \$ cost per year for the amount of cover you want or cost of compulsory cover

Salary continuance or temporary disability cover for up to 2 years:
\$ cost per year for the amount of cover you want

Any relevant restrictions, e.g. age limits, dangerous jobs, maternity leave

Investment options

At least one growth and one conservative option? Y/N

One or more options that meet your needs? Y/N

Investment performance

% each year, based on average 5-year performance of your investment option

Other services and features you need

Insert relevant details

* You may be able to negotiate lower fees.

The fund's website or helpline may offer more information. Your employer or trade union may also be able to answer factual questions, but do not ask them for advice unless they hold a licence to give it.



Your employer's
default fund

MySuper
account
(Industry or
Retail)

Industry fund

Retail fund

Self-managed super fund (SMSF)

You're allowed to set up your own private super fund and manage it yourself, but only under strict rules regulated by the ATO. Running your own fund is complex so think carefully before setting one up. Briefly, you must:

- ▶ become a trustee of the fund, a role that imposes important legal duties on you
- ▶ use the money only to provide retirement benefits, not to run a business or to benefit you or anyone else outside the fund
- ▶ set and follow an investment policy that ensures the fund is likely to meet the members' retirement needs
- ▶ keep meticulous records so your fund can be audited.

You will need:

- ▶ a large amount of money in the fund to make set-up and yearly running costs worthwhile
- ▶ to budget for ongoing expenses such as professional accounting, tax, audit, financial and legal advice to run things properly
- ▶ time, skill and interest to manage the fund well
- ▶ suitable life insurance, as well as income protection and disability cover

Warning:

Sometimes things can go wrong, for example you may lose money due to theft or fraud. Unlike other superannuation fund members, SMSF members do not have access to any special compensation schemes.

For further detailed information on what you need to do as a trustee of a SMSF, you can get a copy of *Thinking about self-managed super* (NAT 72579) from the ATO. See 'To find out more' on page 40.



Find out more



If you give yourself time to learn about super and digest fund information, you may find this sufficient.

If you're facing redundancy or planning for retirement, Centrelink's Financial Information Service offers free, unbiased information, even if you don't expect to claim a pension or benefit. See 'To find out more' on page 40.

You may also need personal advice from a professional adviser in these situations, or for example, if you run your own fund, have large amounts in super or other assets, invest in unusual or more complex financial products or want to know how to manage your own super.

For personal advice, choose a licensed financial advisory business that's expert in super. ASIC's MoneySmart website helps you choose an adviser. Go to moneysmart.gov.au.

Advisers may charge fees directly, or you may pay indirectly through higher fund fees. Many don't advise about industry or corporate funds, so compare any fund your adviser recommends with your employer's default fund, a MySuper account and an industry fund. Use the worksheet on pages 16–17 to do this.

If your adviser recommends changing funds, **always** ask if you'll lose any benefits (including insurance cover), how the 5-year performance of the fund compares with your current fund, what charges will apply and what other significant changes will occur.

Ask your adviser to set this out clearly in your **statement of advice**. A statement of advice sets out what your adviser is recommending and why they think it's suitable for you.

Choosing your investment strategy

Most super funds let you choose between different investment options. Your fund's product disclosure statement explains the strategy behind each option, the return it aims for and the risks involved.

Your fund will also have a ready-made option for anyone who doesn't want to choose, sometimes called the 'default investment option'. The product disclosure statement will explain it. Make certain it really suits you. See 'What's the right investment strategy' on page 22.



What investment strategies mean

Investment options are commonly grouped under four broad headings: 'growth', 'balanced', 'conservative' or 'cash'. Here's a rough guide to these rather loose labels. Look out for how much is invested in shares and property compared with cash and fixed interest.

Label	What it roughly means
Growth	<ul style="list-style-type: none">▶ Invests around 85% in shares or property. Aims for higher returns over the long term and so risks higher losses in bad years.▶ Historically, these higher-risk investments have earned the highest returns over the long term.
Balanced	<ul style="list-style-type: none">▶ Invests around 70% in shares or property, the rest in fixed interest and cash. Aims for reasonable returns, but less than growth funds to reduce risk of losses in bad years.
Conservative	<ul style="list-style-type: none">▶ Invests around 70% in fixed interest and cash, although some invested in shares or property. Aims to reduce risk of loss and therefore accepts a lower return over the long term.▶ Your capital and earnings can still be reduced by losses on investments. Historically, the more the fund invests in fixed interest and cash, the lower the returns over the longer term.
Cash	<ul style="list-style-type: none">▶ Invests 100% in deposits with Australian deposit-taking institutions.▶ Historically, this strategy has earned the lowest returns, only slightly better than inflation.

What's the right investment strategy?

Choosing a strategy lets you adapt your super to your personal situation. From your first job until you retire could easily be 30–40 years, with perhaps another 20–30 years after you retire. Over that time your living standards are likely to rise. Your investment strategy will influence how much income you'll have to retire on.

For this reason, super's a long-term investment that usually suits a 'growth' or 'balanced' strategy, investing in shares and property.

The trade off against the higher return of a higher risk strategy is losses in bad years. Over 30–40 years, it's likely that any growth strategy will lose money in at least 4–6 years. That will hurt, and when you get more than one bad year in a row you may think you chose the wrong strategy.

To find out more about investment risk get a copy of *Investing between the flags* from our Infoline on 1300 300 630 or go to moneysmart.gov.au.

Historically, over any 20-year period, a 'growth' or 'balanced' strategy has been the only way to keep up with rising living standards. You must decide if the likely rewards are worth the risk.

Factors that you will want to consider when choosing your investment strategy include:

- ▶ your age
- ▶ how comfortable you are with investment risk
- ▶ how long you intend to contribute to your super fund
- ▶ when you expect to access your super.

A lower-risk, lower-return strategy ('conservative' or 'cash') could suit people who need greater security, for example if you're withdrawing all your super in less than 5 years time and you want to be sure about how much money you'll have.

Here's an example to show how the risk-reward trade-off works, when even small differences in returns over a long time really add up. In this example an extra 2% over 20 years earned another \$10,000.

Rate of return for 20 years, reinvesting all returns

4% per year

6% per year

Start with

\$10,000

\$10,000

Finish with

\$22,000

\$32,000

Source: ASIC's compound interest calculator, assuming all returns are reinvested annually.



Building your super

Building up super from your own money is generally an excellent investment, thanks to tax concessions and other government benefits. Getting started well before you retire is likely to be far better than a last minute rush a few years before retirement.

Check you can spare the money. After you put it into super it must stay there usually until you retire. Weigh up the benefits of extra super against your other priorities, for example:

- ▶ paying off your credit cards or other debt such as a home loan
- ▶ saving up for a home, starting a family or education
- ▶ building up other investments to draw on when it suits you.

Your own after-tax contributions (also called 'non-concessional' contributions)

If you can spare the money, contributing from your after-tax income can really boost your savings. Your super fund gets tax concessions on investment earnings, so you will usually save more by investing through super than by investing in the same assets outside super. Contributions from your after-tax income don't get taxed when your fund receives them.

There is a limit on the amount of after tax contributions you can make. The limit is \$150,000 each year, or if you are under age 65 and exceed this limit in the first year you can contribute up to \$450,000 over three years. Any contributions you make over these limits will attract an excess non-concessional contributions tax of 46.5%. (This information is current until 1 July 2013.)

See the ATO's publication *Super contributions – too much super can mean extra tax* (NAT 71433) for more information on super contributions. See 'To find out more' on page 40.

If you're 65 or over you can generally contribute to super whenever you like, as long as you meet the 'gainful employment' test. You will meet the test if you have worked for at least 40 hours within a period of 30 consecutive days during the particular financial year. Gainful employment does not include unpaid work. If your current fund doesn't allow you to contribute your own money, you can simply join another fund for that purpose.

Co-contributions

If you make after-tax contributions and earn an income as an employee, you may also receive a government co-contribution based on your income and how much you contribute. Self-employed people are also eligible, subject to certain conditions.

If you're eligible, the ATO pays the co-contribution automatically into your fund, based on your tax return and information received from your fund.

If you earn less than \$48,516 per year (before tax) and make after-tax super contributions, you're eligible to get the government co-contribution.

If you earn less than \$33,516 per year (before tax) the maximum co-contribution is \$500 based on \$0.50 from the government for every \$1 you contribute. And just like that - you've made a 50% return on your money! The amount of the co-contribution reduces the more you earn.

Income level thresholds are indexed so these figures are current until 30 June 2014.

Low income super contributions

If you're eligible and earning up to \$37,000 your concessional super contributions may entitle you to a low income super contribution of up to \$500 per year.

You don't need to apply – the ATO will work out the amount using information on your income tax return and it will be paid directly into your super account. Your super fund will let you know on your account statement when they receive a low income contribution for you.

Contributing for your spouse

You can claim a tax offset of up to \$540 on super you pay on behalf of your spouse if they have a low or nil income. If you're eligible you can contribute up to \$3,000 for your spouse, getting an 18% tax offset. A 'spouse' includes another person who, although not legally married to you, lives with you on a bona fide domestic basis as a couple, but does not include a person who lives separately and apart from you on a permanent basis. The ATO can tell you more. See 'To find out more' on page 40.



Concessional contributions and 'salary sacrificing'

Higher income earners can benefit if your employer allows extra contributions from your pre-tax income, or 'salary sacrifice'.

Suppose you earn \$90,000 before tax and want to top up your super. If you 'sacrifice' \$10,000 in salary, getting a 'new' salary of \$80,000 you would pay less income tax because there's less assessable income. Your sacrificed \$10,000 goes into your super with only 15% in contributions tax taken out. As a result, you've invested more money than by taking the same \$10,000 as normal pay, paying income tax and then investing what was left.

Negotiate these arrangements carefully with your employer. Make sure salary sacrificing won't reduce what your employer would otherwise contribute. Legally, salary-sacrifice contributions are 'employer contributions' which your employer may be entitled to count as part of the 'super guarantee' compulsory 9.25% contribution. Unless you agree otherwise, your employer may be entitled to:

- ▶ reduce their usual contribution by the total amount you salary sacrifice or
- ▶ pay a lower contribution based on your new 'reduced' salary.

The concessional contributions cap is \$25,000 each year (current at 1 July 2013). There are higher concessional caps for people closer to retirement but be aware these caps are lower than they were in the past:

- ▶ People aged 60 and over can contribute \$35,000 including your employer's 9.25% super guarantee contribution
- ▶ From 1 July 2014 people aged 50 and over can contribute \$35,000 including your employer's 9.25% super guarantee contribution.

Any concessional contributions you make over this limit will attract an excess concessional contributions tax of 31.5% on top of the 15% paid by the fund. They will also count towards your non-concessional cap. However, if you breach the concessional contributions cap by up to \$10,000 for the first time you can request a refund of your excess contributions.

See *Super contributions – too much super can mean extra tax* (NAT 71433), available from ato.gov.au, for more information on super contributions. See 'To find out more' on page 40.

Changing funds

Changing funds is an important step. Make sure you don't lose important benefits or suffer extra costs. (And don't forget to tell your new fund your Tax File Number.)

To change funds for an **existing** balance (including previous employer or personal contributions) ask your old or new fund for a transfer form. You can transfer or roll over your super, with some limited exceptions. Your old fund has 30 days to make the transfer. Make sure that your old fund had your Tax File Number otherwise they may deduct extra tax from your rollover amount if you have received employer contributions.

To change funds for **future** employer contributions, follow the steps set out in 'Choosing a fund' on page 8.

Good reasons to change funds include

- ▶ consolidating super accounts to cut costs and paperwork
- ▶ lower-cost or better services that would suit your needs better
- ▶ poor investment performance over a 5-year period compared with other like funds with similar asset allocations.

Bad reasons to change funds include

- ▶ fear, just because your fund declared a negative return. Stick to judging performance over 5 years or more.
- ▶ jumping on the bandwagon of a top-performing fund – chasing returns by moving to last year's top performing fund may not pay off, as that fund may not perform as well next year.



Employer contributions affected?

Check if changing funds will change what your employer contributes. If your employer pays in more than the compulsory 9.25% to your current fund, changing could reduce your benefits. Sometimes this can happen in less obvious ways, especially with **defined benefit funds**.

For example, your employer may favour your current fund by paying in more or offering higher benefits:

- ▶ as your length of service increases
- ▶ if you make or increase your own contributions
- ▶ if your money becomes fully yours (called 'fully vested') only after you stay with the employer for a certain time.

Check the impact on benefits and costs

- Retirement benefits.** Some funds, especially defined benefit funds, may limit or reduce what you can transfer, making it better to stay in the fund until you retire.
- Insurance benefits.** Make sure you are not losing important benefits by ceasing your existing cover. It is also important to make sure that you have cover during any transition between funds. Will cover be automatic in the new fund?
- Costs.** Check termination fees from the old fund and contribution fees into the new one. These come out of your account and reduce your benefits.

Changing jobs

Leaving your current employer to change jobs is a good time to review and possibly combine your super accounts.

You'll need to decide what to do with your existing super, and also consider the fresh choice of fund for future contributions you'll be offered with your new employer.

Quick tip



It generally saves time and money to keep your super in as few accounts as possible. Otherwise, as you change jobs, you could build up a string of super accounts charging you fees, providing insurance you already have and wanting your contact details. You also might lose contact with one or more of your funds. See 'Changing funds' on page 26.

If you have to leave your current fund altogether, you might roll your existing super over into the fund you choose when you join your new employer. If you can leave your money in the old fund, review what your new employer's fund or other funds can offer. You may want your new employer to pay into your existing fund if this is possible.

Changing jobs can sometimes increase the fees you'll pay in your old fund, especially if your new employer does not sponsor your old fund.

If you get retrenched, check if your fund offers any benefit entitlements. Before you make any decisions, take any money or sign any documents, find out the best way for you to deal with any money. You may not be able to undo a decision you're unhappy about.

Preserved and unpreserved benefits

When you leave a job, you'll probably have to keep most of your accumulated benefits in a fund. Any money contributed after 1 July 1999, including investment earnings, must be kept or 'preserved' within super. (Employer-financed benefits before that date may also have to be preserved.)

Your latest annual statement or your fund can tell you if you have any 'unpreserved' amounts. You can still roll these over into your new super fund, which can really boost your retirement savings. If you withdraw them to spend or invest outside super, you may have to pay extra tax.



Keeping track of your super

Check your annual statements

To make sure you get a statement, keep your super fund up to date with your contact details. If you have more than one account, keep all funds up to date.

When you get your statement, check that each item makes sense.

- What you had at the start of the year
- Your employer's payments during the year
- Any amounts you paid in
- Any bonus Government contributions
- Fees deducted
- Cost of insurance cover
- How much was taken out for government taxes
- How much the fund credited to your account from its investments
- What you now have at the end of the year
- Your fund has your Tax File Number

If you don't understand the statement, contact the fund. You have the right to a clear explanation. If you don't receive it, see 'Complaints about your fund' on page 33.

Keep all your statements in a safe place so you can keep track of your accounts and contact your fund if necessary. Keep a copy of this booklet with your statements.

Read your fund's annual report

How well did your fund invest your money? The fund's annual report tells you about the investments it made and how they performed during the year.

Does the return broadly match the target set out in your fund's product disclosure statement? If not, look for an explanation, and ask yourself if it makes sense.

Judge your fund's performance over at least 5 years. Compare returns for that time with the market. Many funds show these comparisons. Don't panic if returns are negative: remember that super is a long-term investment. See 'Judge investment performance' on page 14.

Small amounts in lots of accounts?

Quick tip



To manage your super more easily and save costs, consider combining small accounts into a single account in a single fund. (Check the impact of termination fees and loss of any other benefits first.)

If an account has less than \$1,000, special rules apply to administration fees. Contact your fund for details.

If an account has less than \$200, the fund may allow you to withdraw the money when you finish your employment. Unless you really need the money, it's generally better to roll it over into your next fund, and you won't have to pay tax. See 'You can get your super earlier only in limited circumstances' on pages 34–35.

You can transfer funds by using the ATO's *Request to transfer whole balance of super benefits between funds form* (NAT 71223). See 'To find out more' on page 40.



Recover your lost super

Unless you keep your funds up to date with your address, they might consider you a 'lost member', and transfer your benefits to an 'eligible rollover fund' where your investment earnings may be less.

The sooner you recover any 'lost' super, the less hassles and paperwork. To check if you have any lost super, use the free ATO 'SuperSeeker' at ato.gov.au.

Over recent years there has been a significant and steady growth in both the number and value of accounts listed on the Lost Members Register.

The latest available data indicates that some 6.4 million accounts totalling \$12.9 billion are lost or in inactive accounts.

This represents roughly one in five of all superannuation accounts, and an average of one lost account for every two Australian workers.

(Source: Treasury, November 2008)

Check employer contributions

Employers must pay contributions quarterly, and may pay more often. Your payslip may show the amount of super contributions that have been paid into your fund.

Occasionally, employers don't pay the correct amount. Check with the fund that you're registered as a member and that the right contributions are getting through. If you are casual or part-time, this is especially important. Talk to your employer straight away if the payments seem too small or are not being paid.

If you are concerned about unpaid super contributions, or if you would like to know more about the process the ATO follows to investigate unpaid super complaints, you can visit ato.gov.au/unpaidsuper or call 13 10 20.

Who gets your super if you die?

If you die while a fund member, the trustee must normally pay your death benefit to one or more of your dependants or your estate.

'Dependants' means your spouse (e.g. husband, wife, de facto spouse or same-sex de facto partner), children, people with whom you had an 'interdependent' relationship or those who depend on you financially.

Ask your fund for details. If the death benefit is paid to people who are not your dependants (for tax purposes this includes children over 18) it may be taxed.

Most funds let you nominate who you want your death benefit paid to, either as a '**non-binding**' or '**binding**' nomination.

A '**non-binding nomination**' just guides the trustee, who still has the final say, especially if you have dependants but you nominate someone who doesn't depend on you. The trustee is not required to follow the instructions in your will.

A '**binding nomination**' will bind the trustee, and lets you name:

- ▶ a dependant, or
- ▶ your 'legal personal representative', who must distribute your benefit according to your will or according to law if you have no will.

Quick tip



Keep your death benefit nominations up to date, especially if you marry, re-marry or have children. You will be asked to update or confirm these nominations every 3 years.

Super and relationship breakdown

If your marriage or de facto relationship breaks down, your super's treated the same way as your other assets. Briefly, your super can be divided by agreement or court order. Your divorcing spouse is entitled to information from your fund about your super. If the super's split up, a new super account can generally be started for the ex-spouse receiving the super.



Complaints about your fund

Complain promptly if you're not satisfied.

First, talk to your fund.

If you're not happy with the person you're dealing with, ask to have the matter handled through their formal complaints system.

If the internal complaints system does not satisfactorily resolve your complaint, contact the **Superannuation Complaints Tribunal** on **1300 884 114**. See 'To find out more' on page 40.

If your complaint is about advice on super from a licensed financial advisory business, the best place to start is to talk to your financial services provider.

If you are unable to resolve the problem with your provider, the **Financial Ombudsman Service (FOS)** provides accessible, fair and independent dispute resolution services as an alternative to taking your dispute to court. The service is free to consumers. Contact FOS on **1300 780 808**. See 'To find out more' on page 40.

ASIC's free *You can complain* booklet has more help and sample letters. See 'To find out more' on page 40.



Getting your super before your 'preservation age'

By law, you generally get your super only when you:

- ▶ permanently retire from the workforce, and also
- ▶ reach the minimum age set by law, called your 'preservation age', see the table below.

Your date of birth	Minimum age for getting your super benefits
From 1 July 1964	60
1 July 1963–30 June 1964	59
1 July 1962–30 June 1963	58
1 July 1961–30 June 1962	57
1 July 1960–30 June 1961	56
Before 1 July 1960	55

You can get your super earlier only in limited circumstances as listed below and opposite. However in most instances getting your super early means you have to pay more tax than if you left it in your fund until retirement age.

Incapacity

Contact your fund if you suffer from a permanent incapacity. You may also be paid a 'non-commutable' income stream during a period of temporary incapacity (you won't be able to get a lump sum in the case of a temporary incapacity).

Severe financial hardship

Contact your fund. If its rules allow early release of benefits, you must satisfy the trustee that you have been receiving a Commonwealth income support payment for a continuous period of 26 weeks and you cannot meet your reasonable and immediate family living expenses.



Compassionate grounds

Contact your fund. If its rules allow early release of benefits, the 'compassionate grounds' are set out in the law. Centrelink must consider your application first, before your fund trustee can make a final decision.

Compassionate grounds include medical treatment for serious conditions that is not readily available through the public health system, transport for medical treatment, changes to a home or vehicle because of a severe disability, palliative care, funeral and burial expenses, or to prevent the forced sale of your home by your mortgagee. Centrelink has more information about specified compassionate grounds.

See 'To find out more' on page 40.

Terminal medical condition

People with a terminal illness or injury can access their benefits from their super fund tax-free. Contact your fund if you have a terminal medical condition and want to access your super, as they make the decision on whether or not to release your super.

If your super fund does allow these types of payments, you need to supply them with medical certification before they can make a payment. The payment can only be made as a super lump sum. For more information see the ATO website. See 'To find out more' on page 40.

Leaving Australia permanently

Contact the ATO, because you may be eligible to claim your super when you permanently leave the country if you have worked in Australia as a temporary resident.

If you leave the country and haven't claimed your super at least 6 months before you leave, it will be paid to the ATO. You will then have to claim it back from the ATO and it will be repaid after normal taxes are paid.

This payment is not available for permanent Australian or New Zealand citizens because they have the option of retiring in Australia. See 'To find out more' on page 40.

Small balance

Contact your fund. If the fund rules allow it and your account has less than \$200 (preserved benefit) you may be allowed to withdraw the money when you finish your employment. A fund may also be able to pay you if you were previously classified as a lost member and the preserved benefit, at the time it is paid to you, is less than \$200.

Unless you really need the money, it's generally better to roll it over into your next fund, and you won't have to pay tax.

Illegal early access

Avoid illegal schemes that try to get your super money out early, and save yourself from getting cheated and from heavy tax and legal penalties. These schemes are sometimes promoted by word of mouth or shady advertising.

Report to ASIC or the ATO anyone who tries to talk you into getting your preserved benefits early through a self-managed super fund or for a fee. See 'To find out more' on page 40.

Protect your identity

Some super fund member statements are being stolen from private mailboxes and the information in them is then used to create false identities. Self managed super funds, linked to bank accounts, are then set up. Assuming a fund member's identity, thieves contact the member's super fund requesting that their super money be rolled into the fraudulent account.

If you are concerned that this may have happened to you contact your super fund. You may also report your concerns to the Department of Human Services Early Release of Superannuation Benefits Branch on **1300 131 060** or your local police.



Moving towards retirement

How much will you need?

The ASFA Retirement Standard for the March quarter of 2013 states that to have a modest retirement lifestyle that is a little better than the Age Pension, but very basic, a couple needs an annual income of \$32,603 and a single person \$22,641 (the calculations take entitlement to the Age Pension into account).

To have a comfortable retirement lifestyle which includes some travel, private health insurance and a reasonable car, substantially more private savings are required. A couple needs an annual income of \$56,317 and a single person \$41,169 for a comfortable lifestyle. See 'To find out more' on page 40 for ASFA's contact details to check their latest quarterly data.

Will my retirement benefit last the distance?

Because Australians are living longer their super savings have to support them for longer. To get an approximate idea of how much you'll need as a lump sum in order to get a modest or comfortable retirement, the ASFA Retirement Standard figures have been converted into lump sums for retirees aged 65 who will live to an average life expectancy of about age 85. (Life expectancy for a 65 year old is currently 86.2 years for women and 82.7 years for men. Source: Australian Government Actuary, 2005–07 Australian Life Tables.)

Couple	Annual costs/ after-tax income	Lump sum needed
Modest	\$32,603	\$424,000
Comfortable	\$56,317	\$733,000
Single	Annual costs/ after-tax income	Lump sum needed
Modest	\$22,641	\$295,000
Comfortable	\$41,169	\$536,000

Source: Lump sum estimates assume a return rate of 4.5% above inflation. These figures do not take into account any age pension entitlements..

Your retirement benefits

If you retire and have reached your preservation age (see the table on page 34), you can draw on your super.

After you reach age 60, benefits paid from a taxed super fund are completely free of tax, whether you choose to draw a regular income or a lump sum. (Benefits from untaxed funds, such as various public service funds, are still taxed.)



Quick tip

If you keep your money invested in the super system by taking your super benefits as a retirement income stream you won't be paying tax on the money the fund earns from its investments. But if you take out your super as a lump sum and invest it, you will pay tax on the investment earnings.

Transition to retirement

If you have reached your preservation age, you can draw on your super without having to retire permanently from the workforce.

For example, you could continue working part-time and use part of your super to supplement your income, instead of leaving the workforce altogether.

Under the transition to retirement rules, if you're still working, you can only access your super as a 'non-commutable' income stream, such as an annuity or a transition to retirement allocated pension, not as a lump sum. ('Non-commutable' means you can't convert into a lump sum.)

However, you can convert your transition to retirement income stream to cash when you retire or reach age 65. Or you can stop the pension and put your benefits back into your super fund, for example if you decide to go back to full-time work.



Plan ahead

Retirement often sneaks up unexpectedly, so plan ahead.

Some retirement decisions can prove impossible or expensive to change. Leave your super inside your fund, or inside the super system (for example, a rollover fund or approved deposit fund) until you know exactly what to do. Taking your money out of super may force you to pay unnecessary tax. Find out how tax and government welfare benefits may affect you.

Centrelink's Financial Information Service offers free, independent information through seminars and personal appointments about tax and government benefits, even if you don't expect to claim a pension or benefit. See 'To find out more' on page 40 for contact details.

You may also need personal advice from a licensed advisory business that knows about tax, government benefits and retirement products.

Shop around

Check what your fund offers first, then shop around.

Your fund may offer generous super pensions with low fees that would be hard to find elsewhere. If your fund offers only a lump sum, check if you'd be better off setting up an account-based income stream (allocated pension) with another super fund or purchasing an annuity from a life insurance company.

There are significant benefits in converting your super into a retirement income stream such as an account-based pension. See ASIC's account-based pension calculator and retirement planner calculator at moneysmart.gov.au for more help.

Different products let you turn a lump sum into a stream of income for all your life, for a set period of time or until the money runs out. Check fees and find out how each product may affect your tax and government welfare benefits.

If you take a lump sum and look after it yourself, we suggest you:

- ▶ Learn more about investing.
- ▶ Seek advice only from licensed financial advisory businesses.
- ▶ Take extra care, especially if you're new to investing. Swindlers often try to cheat retired people with lump sums.

To find out more

Australian Securities and Investments Commission (ASIC)

Free financial tips and safety checks, including super and retirement planner calculators, and for help on suspected inadequate, misleading or deceptive information or misconduct, fraud or dishonesty.

moneysmart.gov.au or phone 1300 300 630

Association of Superannuation Funds of Australia (ASFA)

Consumer fact sheets, calculators, a dictionary of super terms and the ASFA Retirement Standard.

superannuation.asn.au or phone 02 9264 9300

Australian Prudential Regulation Authority (APRA)

For information on how super funds operate.

apra.gov.au or phone 1300 558 849

Australian Taxation Office (ATO)

Lost super accounts, co-contributions, tax rules and self-managed super funds. For more information about missing or incorrect super guarantee contributions talk to your employer first.

ato.gov.au or phone 13 10 20

Department of Human Services

The **Financial Information Service (FIS)** offers free information and seminars to help you make informed decisions about your current and future investment and financial needs, phone 13 23 00.

For early release of super on compassionate grounds, talk to your fund first then call the **Early Release of Superannuation Benefits Branch** on 1300 131 060. For help with government benefits and pensions phone 13 23 00.

humanservices.gov.au



Financial Ombudsman Service (FOS)

Independent dispute resolution services for most banking, insurance and investment disputes in Australia including complaints about financial advice.

fos.org.au or phone 1300 780 808

Financial Services Council (FSC)

Consumer fact sheets, financial services glossary and general industry information.

fsc.org.au or phone 02 9299 3022

National Information Centre on Retirement Investments (NICRI)

Free, confidential information over the phone and publications.

nicri.org.au or phone 02 6280 9977

Superannuation Complaints Tribunal (SCT)

Complaints after you've tried to sort things out with your fund.

sct.gov.au or phone 1300 884 114

Super Fund Lookup

Contains publicly available information about super funds that have an ABN. It includes funds regulated by the Australian Taxation Office and the Australian Prudential Regulation Authority (APRA).

abn.business.gov.au

We are interested in your feedback

To help us meet your needs we welcome all feedback about the content in this publication.

Please send your feedback to:

Email:

feedback@moneysmart.gov.au

Post (no stamp required):

ASIC Publications

Feedback

Reply Paid 3451

GIPPSLAND MC VIC 3841



The MoneySmart website has calculators, tools and tips to help you make smart choices about:

- ▶ Superannuation and retirement
- ▶ Investing
- ▶ Borrowing and credit
- ▶ Scams
- ▶ Budgeting and saving

moneysmart.gov.au

ASIC Infoline: **1300 300 630**

Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

© Australian Securities & Investments Commission 2013.

ISBN 978-0-9775855-7-1 | October 2013 |



ASIC

Australian Securities & Investments Commission